

Message Text

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ACTION ARA-14

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SUBJECT: FISCAL INCENTIVES FOR CAPITAL GOODS INDUSTRY

1. THE MEXICAN TREASURY HAS GRANTED VARIOUS TAX INCENTIVES FOR THE CAPITAL GOODS INDUSTRY, INCLUDING REDUCED IMPORT TAXES AND INCOME TAXES. TAX INCENTIVES TO BE EFFECTIVE ONLY IN 1978, THOUGH THEY PRESUMABLY COULD BE EXTENDED. TREASURY SECRETARY IBARRA HAS LONG FAVERED MORE RAPID DEVELOPMENT OF A DOMESTIC CAPITAL GOODS INDUSTRY AS MOST CAPITAL GOODS ARE IMPORTED.

2. THE TAX INCENTIVES TO PRODUCERS OF CAPITAL GOODS ARE AS FOLLOWS:

A) A 75 PERCENT REDUCTION IN THE IMPORT TAX ON MACHINERY AND EQUIPMENT NOT PRODUCED IN MEXICO, OR FOR WHICH THE DOMESTIC PRODUCTION CANNOT COMPETE ON THE GROUNDS OF PRICE, QUALITY AND/OR DELIVERY TIME. THE 25 PERCENT BALANCE CAN BE REBATED IF THE DOMESTIC PRODUCER SPENDS AT LEAST ONE PERCENT OF ANNUAL REVENUES ON RESEARCH AND DEVELOPMENT, OR IF HE HAS A SIGNIFICANT EXPORT PROGRAM.

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B) UP TO 100 PERCENT REDUCTION IN IMPORT DUTIES ON RAW MATERIALS OR PARTS.

C) UP TO 75 PERCENT REDUCTION IN THE GROSS RECEIPTS TAX ON SALES OF DOMESTICALLY PRODUCED CAPITAL GOODS CONSIDERED TO BE OF PRIORITY.

D) A REDUCTION OF 15 TO 20 PERCENT IN THE CORPORATE INCOME TAX FOR PRODUCERS FOR CERTAIN CAPITAL GOODS, SUCH AS THOSE GOODS USED BY THE ENERGY SECTOR, OR MINING.

E) ACCELERATED DEPRECIATION FOR TAX PURPOSES CAN BE GRANTED.

3. TO QUALIFY FOR THE ABOVE INCENTIVES, THE FIRM'S LOCAL CONTENT MUST EQUAL 60 PERCENT OF PRODUCTION COSTS, OR THE PRODUCTION PROGRAM MUST BE APPROVED BY THE SECRETARIAT OF PATRIMONY AND INDUSTRIAL DEVELOPMENT. ALSO, THE COMPANY MUST BE MAJORITY MEXICAN-OWNED THOUGH MAJORITY FOREIGN-OWNED COMPANIES CAN OBTAIN THE IMPORT DUTY REBATES IF THEIR EXPORTS EQUAL THEIR IMPORTS.

4. PURCHASERS OF DOMESTICALLY PRODUCED CAPITAL GOODS CAN USE AN ACCELERATED DEPRECIATION.

5. THE INCENTIVES WILL BE GRANTED BY THE TREASURY AND IN CERTAIN CASES WILL BE FOR PRODUCTION OUTSIDE THE MAJOR METROPOLITAN AREAS. THE INCENTIVES ARE TO EXPIRE AT THE END OF 1978, THOUGH THE GOVERNMENT COULD RENEW THEM.

6. COMMENT: MEXICAN GOVERNMENT OFFICIALS HAVE LONG BEEN CONCERNED ABOUT THE SMALL SIZE OF THE DOMESTIC CAPITAL GOODS INDUSTRY AND THE RESULTANT DEPENDENCE ON IMPORTED UNCLASSIFIED

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CAPITAL GOODS. LUCEY

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